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RUEHDK/AMEMBASSY DAKAR 1100
RUEHKM/AMEMBASSY KAMPALA 1528
RUEHNR/AMEMBASSY NAIROBI 3924
RUEHFR/AMEMBASSY PARIS 1297
RUEHRO/AMEMBASSY ROME 1953
RUEHBS/USEU BRUSSELS
RUEHGV/USMISSION GENEVA 0644
RHEHAAA/NSC WASHDC
RUCNDT/USMISSION USUN NEW YORK 1691
RUEKJCS/JOINT STAFF WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHEFDIA/DIA WASHDC//DHO-7//
RUCPDO/DEPT OF COMMERCE WASHDC
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK//DOOC/ECMO/CC/DAO/DOB/DOI//
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C O N F I D E N T I A L SECTION 01 OF 03 HARARE 000116

SIPDIS

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AF/S FOR S. HILL
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN
STATE PASS TO USAID FOR M. COPSON AND E.LOKEN
TREASURY FOR J. RALYEA AND T.RAND
COMMERCE FOR BECKY ERKUL
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS

E.O. 12958: DECL: 01/12/2016
TAGS: [EFIN](#) [ECON](#) [ELAB](#) [PGOV](#) [ZI](#)
SUBJECT: MUGABE'S GRIP LIMITS ECONOMIC REFORM

REF: A. HARARE 0102

[1](#)B. HARARE 0080

Classified By: Ambassador Christopher Dell under Section 1.4 b/d

Summary

[1](#)1. (C) Muyaradzi Kereke, Senior Advisor to Reserve Bank of Zimbabwe (RBZ) Governor Gideon Gono, told econoff on February 9 that Gono would seek permission from President Mugabe to allow a devaluation of the currency for the donor community. To make the policy shift palatable to Mugabe, Gono would cloak it in a face-saving gesture of generosity on the occasion of the leader's upcoming 83rd birthday. Negotiations on a social contract with labor, employers and the GOZ to restrain prices and incomes were at an impasse in the face of labor's demand for a massive wage increase. The gap between wages and the minimum income needed to stay above poverty, along with the January rates of inflation and informal currency depreciation, have never been higher.

[1](#)2. (C) Kereke was grim about the prospects for securing financing for Zimbabwe's 1-1.2 million MT maize shortfall, the wheat shortfall, and the fuel for distribution. He also said Mugabe had agreed to eliminate the highly distortional maize subsidy except for vulnerable populations. An array of surtaxes was under discussion to finance subsidies for the

vulnerable. In closing, he said neither Gono nor the new Finance Minister would represent the country at this month's IMF Board meeting on Zimbabwe. End Summary.

Liberalizing the Exchange Rate and "Saving Face"

13. (C) Kereke told econoff that the Governor had asked various international organizations and embassies for their assessment of the "fair value" exchange rate. (N.B. The UN had such a rate until it was scrapped by the RBZ a half year ago.) Gono intended to approach Mugabe soon to approve a devaluation to that rate for the donor community. He also planned to have the UNDP and World Bank resident representatives meet with Mugabe to reinforce the case. Other "carefully selected envoys" would also show the President in vivid, "non-revulsive" examples and "simple graphics" the cost and implications of an overvalued currency. (N.B. We are not participating in or supporting discussions on a humanitarian exchange rate as long as the economy has not stabilized and the RBZ insists that all affected donor funds flow through the RBZ. The legally available rates at which FSC Charleston obtains Zimbabwean dollars on the international market are both better than anything the RBZ has offered, and avoids the moral hazard of being beholden to Gono and violating our own advice to abolish multiple exchange rates.)

14. (C) According to the Acting Head of DFID-Zimbabwe, Rachel Yates, the RBZ envisages in-house management of the rate based on the Consumer Price Index and without input from

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private sector analyses or consideration of the parallel exchange rate. On current calculations, the rate would be around Z\$1,300-1,500:USD as compared to the official rate of Z\$250:USD and the London Global Currency rate of Z\$2,915:USD.

15. (C) Seeking a face-saving way out for Mugabe, Gono was counting on Mugabe permitting devaluation of the currency for humanitarian uses in a "gesture of generosity" on the occasion of his 83rd birthday on February 21. Gono's next step would then be to persuade Mugabe to allow funds transferred from the Diaspora to be paid out at the humanitarian exchange rate.

The Social Contract) "An Impossible Equation"

16. (C) In Kereke's view, progress in the negotiation of a social contract to restrain prices and incomes, as announced by Gono in his Monetary Policy Statement (ref B), was a "point of disappointment," and "an impossible equation." He said stakeholders were stuck in entrenched positions. Labor was demanding wage increases to match the Poverty Datum Level (PDL); employers argued that increasing wages to the PDL would drive them out of business; and government maintained that such a move would consume 100 percent of fiscal expenditure. (N.B. The PDL rose 86 percent in January to Z\$458,000 for a family of six, against wages averaging well below Z\$100,000/month.)

17. (C) Kereke saw hope in gradually converging wages and the PDL through tax policy, but conceded that the GOZ needed to move fast to stabilize the economy. (N.B. This seems increasingly unlikely as newly-released inflation data show that price levels have spiked yet again. Officially inflation is 1,593 percent, while two local supermarket chains and PriceWaterhouseCoopers put the annualized inflation rate at end-January in the 2,500-3,000 percent range.)

18. (C) The Senior Advisor reported Gono's alarm over the

arrest on February 8 of two more executives for raising the price of a controlled product, this time flour, without approval. (N.B. Flour, bread, milk and maize meal are controlled products; their prices may not be adjusted without government permission.) He said the arrests were not conducive to establishing the necessary pre-conditions for a social contract.

Food Security) "A Genuine Challenge"

¶9. (C) Kereke said Zimbabwe would need to import 1-1.2 million metric tons (MT) of maize plus wheat this year at a cost of US\$250-300 million, in addition to fuel for its distribution. The RBZ was finding it "a genuine challenge" to put together the financing facility. He also commented that ex-Finance Minister Murerwa's failure to budget for such contingencies had cost him his job (Ref A).

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¶10. (C) As one proposed solution to long-term food insecurity, Kereke said Mugabe had agreed to remove the Grain Marketing Board (GMB) maize subsidy. The policy shift would end a price distortion in which the GMB bought maize from farmers at Z\$52,500/t, sold it to millers at Z\$600/t, and sometimes even bought it back from the millers at Z\$52,000/t. There would be "correctional pain," but targeted subsidies were planned to protect vulnerable groups. Funding would come from the introduction of surtaxes on the top income bracket, on profits made on the Zimbabwe Stock Exchange, and on the "wild profits" being made in property transactions.

Ducking the IMF Board Meeting

¶11. (C) Gono did not plan to attend the IMF Board meeting on Zimbabwe scheduled for February 23, nor would newly appointed Finance Minister Mumbengegwi make the trip; Zimbabwe's IMF Executive Director would represent the country. According to Kereke, Gono had sent a letter to the IMF on February 8 outlining his reform commitments. Gono did, however, plan to attend the spring meeting of the World Bank/IMF.

Comment

¶12. (C) Kereke's snapshot of the state of Gono's reforms is bleak: the most significant of all economic distortions - the exchange rate - is deeply politicized; Gono apparently must kowtow to Mugabe over every incremental devaluation and cloak it obsequiously in face-saving gestures of presidential magnanimity. Two weeks have now elapsed since Gono's call for a month's "reflection" on the need for fundamental change. There has been no follow-up or progress that we are aware of. Moreover, getting labor, employers and the GOZ to agree to a price and income freeze slips further and further out of reach as workers face the unprecedented recent spike in inflation and the freefall of the local currency's tradable value. Nor can Gono or the new Finance Minister come close to meeting the unbudgeted wage demands of the increasingly impoverished civil servants by any other means than resorting to the printing press. Small wonder that Gono is ducking a grilling by the IMF Board of Directors; he still has nothing more than promises to offer.

DELL